aex

Ashlu Exploration Ltd.
1983 Annual Report

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Company Profile

Ashlu Exploration Ltd. is a 100% Canadian owned company engaged in oil and gas exploration and production in Canada and the United States. Ashlu became a public company in March 1976, under the name of Ashlu Gold Mines Limited. Through a re-organization of the Company in 1979, exploration efforts were re-directed to oil and gas and a change of name to Ashlu Exploration Ltd. was subsequently approved. Ashlu now has producing properties in British Columbia, Alberta, Saskatchewan, Montana, Oklahoma and Louisiana.

Ashlu is listed on the Alberta Stock Exchange under the symbol AEX and, as of December 31, 1983 had 4,393,193 common shares outstanding and 66,250 convertible preferred shares outstanding.

Annual General Meeting

Wildcatter's Room
Plaza One
Sandman Office Tower
840 - 7 Avenue S.W.
Calgary, Alberta
11:00 a.m.
Friday, June 29, 1984

Ashlu Exploration Ltd.

Highlights — Five Year Summary

	1983	1982	1981	1980	1979
Financial Information					
Sale of oil and gas	**$ 755,863**	$ 601,806	$ 391,707	$ 172,484	$ 1,555
Drilling income (turnkey operations)	**—**	—	671,384	663,029	—
Gain on sale of property	**87,246**	222,318	53,984	58,088	—
Other income	**102,522**	20,106	19,204	20,390	33,344
Gross income	**945,631**	844,230	1,136,279	913,991	34,899
Funds generated from operations	**357,204**	66,058	8,183	271,985	18,805
Cash flow per share	**8¢**	2¢	Nil	7¢	Nil
Net earnings (loss) for the year	**49,934**	(829,448)	(100,572)	115,149	10,207
Net earnings (loss) per share before dividends	**1¢**	(20¢)	(2¢)	3¢	Nil
Capital expenditures	**887,073**	679,999	3,152,736	1,560,981	563,744
Issued shares					
Common	**4,393,193**	4,142,695	4,142,695	3,973,747	3,578,230
Preferred — $10 par value	**66,250**	33,277	—	—	—
Operating Information					
Production (before royalties)					
Crude oil (bbls.)	**21,090.0**	19,090.2	17,066.0	10,361.0	145.0
Natural gas (MCF)	**121,906.0**	97,253.0	61,858.0	44,824.0	—
Reserves (before royalties)					
Crude oil (MSTB)					
Proven	**238.1**	354.2	305.2	152.0	39.2
Probable	**65.5**	109.3	115.4	109.1	10.0
	303.6	463.5	420.6	261.1	49.2
Natural Gas (MMCF)					
Proven	**4,470.6**	3,584.2	4,583.0	3,326.4	804.5
Probable	**1,706.2**	2,308.3	1,912.1	546.4	148.6
	6,176.8	5,892.5	6,495.1	3,872.8	953.1
Drilling Activity					
Gross wells	**5**	10	54	39	13
Successful	**4**	7	33	26	12
Dry	**1**	3	21	13	1
Land Holdings					
Gross acres	**154,856**	198,757	257,186	267,155	183,794
Net acres					
Canada	**14,899**	20,184	23,760	12,037	5,905
United States	**15,743**	18,730	32,640	35,009	26,429
	30,642	38,914	56,400	47,046	32,334

Report to Shareholders

Restraint continued to be the major theme in 1983 and benefits are beginning to flow to the company from this policy. Although oil reserves declined slightly, significant increases in cash flow and net income were recorded. On behalf of the Board of Directors I am pleased to present our Annual Report for the year ended December 31, 1983.

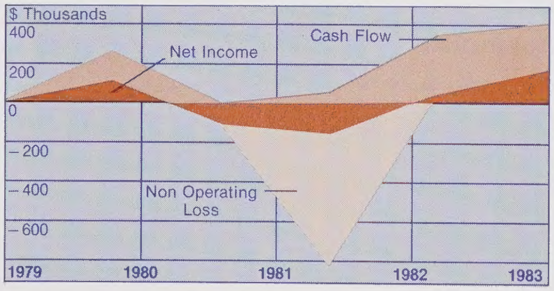
Financial Highlights

Gross revenues in 1983 amounted to $945,631 generating cash flow of $357,204 (8¢ per share), compared to cash flow of $66,058 (2¢ per share) in 1982. The Company recorded a net income of $49,934 (1¢ per share) compared to a loss of $829,448 in 1982.

The improved net earnings and cash flow were accomplished by increasing oil and gas revenue in 1983 by 25% from $601,806 in 1982 to $755,863 in 1983. On the expense side, production costs in 1983 were reduced by 19%, administration costs were reduced by 22% and, due to reduction in interest rates, interest expense declined by 33%.

The following chart graphically depicts the Company's performance since its reorganization in 1979.

Cash Flow vs Net Income



Ashlu continues to successfully service its long term debt although significant principle payments have not been accomplished. Negotiations have been carried out with the Company's Banker during 1984 to obtain a long term banking arrangement which will be within the Company's means. We are confident an agreement will be reached by the end of June 1984. Once this agreement has been finalized the Company will be in a better position to create, with some assurance, long term budgets involving greater capital expenditures for exploration and development.

Operational Highlights

In 1983 the Company participated in two oil wells, two gas wells and one dry hole. Ashlu was operator on four of these wells, two of which are producing oil wells.

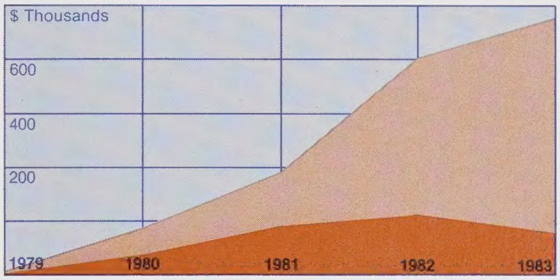
A major producing asset is in the Erskine-Stettler area of Alberta where the Company operates a gas plant. In 1983 the Company acquired the shares of Concord Transmission Limited which previously operated the gathering system and gas plant. As a result of this acquisition, Ashlu now owns 50% of the plant and, through agreements, controls the remaining 50%. Any additional gas found in this area by Ashlu will be processed through this plant and Ashlu will earn additional processing revenue.

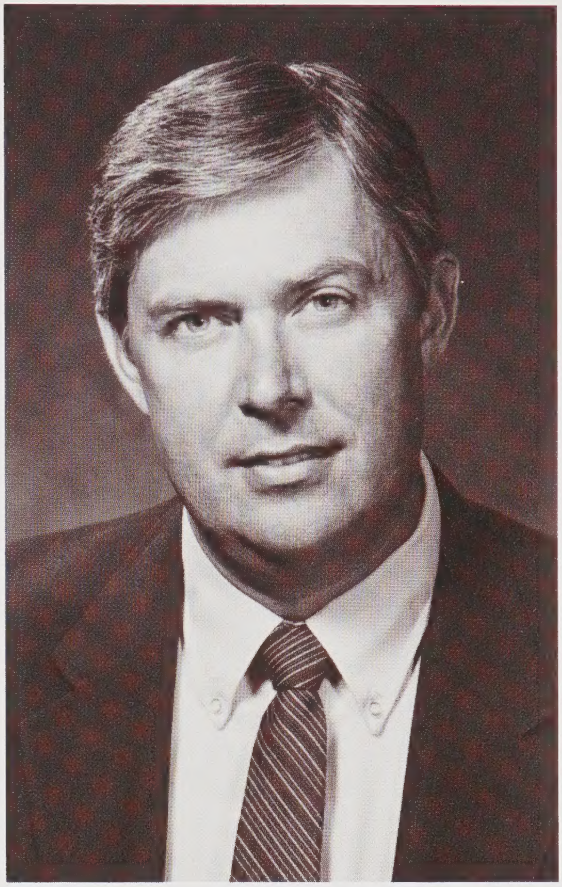
In 1983 the Company continued to consolidate its land inventory by selling undeveloped acreage. This practice has been a source of cash flow and we plan to continue acquiring acreage for resale as well as selling inventory on which the Company has no plans to drill. In addition the Company is continually acquiring acreage on drillable prospects. At year end the Company owned 30,692 net acres comprised of 14,899 net acres in Canada and 15,743 net acres in the United States. An independent evaluation of the acreage valued the Company's undeveloped holdings at $1,070,015.

Reserves

In 1983 Ashlu recorded an 11% increase in proven and probable gas reserves to 4.8 BCF with proven and probable oil reserves declining by 5% to 230,000 bbls. This apparent reduction in oil reserves was brought about by a re-evaluation of the Company's Stettler property. Proven and probable reserves were valued independently at $10,400,000 discounted at 15%. This is 24% lower than the 1982 valuation and reflects the more conservative oil price predictions now in use.

Production Revenue vs Operating Costs





Outlook

Like many other oil and gas companies, Ashlu continues to suffer from the indiscretion of 1981, wherein capital expenditures were funded by bank borrowing instead of equity financing. However, Ashlu has successfully coped with the problem and continues to improve its operations. With a renewed Bank agreement in place, Ashlu will be able to budget more effectively and increase prospects for raising equity funding.

During 1983 the Company generated "bread and butter" prospects coupled with several higher risk but excellent profit breakthrough opportunities. Several of these prospects are described within this report.

We foresee that our low risk prospects will continue to increase oil and gas revenue by modest amounts, but even one success on the high risk ventures could cause a dramatic increase.

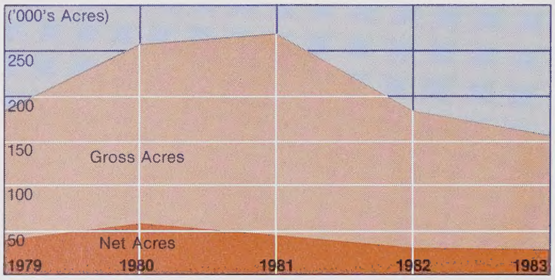
I wish to thank the staff of the Company for their efforts and hard work despite the financial restraints under which they have operated. In addition I wish to thank the shareholders for their patience and confidence. I am truly convinced Ashlu is on a recovery course.

Hugh D. Borgland

Land Holdings & Reserves

Despite a policy of consolidating land holdings and selling acreage as a source of cash flow, Ashlu has maintained sizeable acreage representation in both Canada and the United States. At year end the Company has an interest in 154,856 gross acres comprised of 14,899 net acres in Canada and 15,743 net acres in the United States. An independent evaluation of the Company's undeveloped acreage determined a value of $1,070,015 for Ashlu's net interest.

Land Holdings

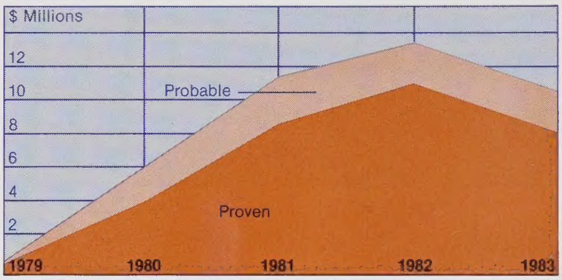


The Company has completed an internal review of all of its prospects and allocated each prospect to a specific plan of action. As part of this plan, the Company has an inventory of prospects which Ashlu plans to farmout or sell. This inventory totals some 10,981 net acres that are available for disposition. In addition to the existing inventory the Company plans to continue to acquire further acreage in East Central Alberta and Southwest Manitoba. In any new lease acquisition, Ashlu plans to maintain at least a 50% interest.

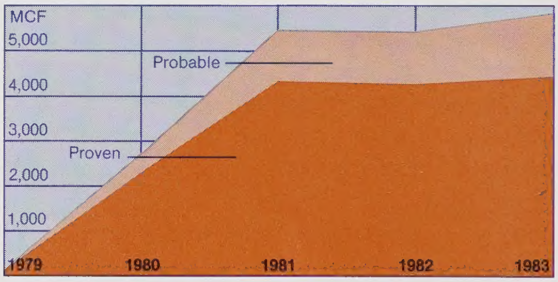
Petroleum and Natural Gas Reserves

During 1983, limited funds for capital expenditures restricted the Company drilling activity to five wells. The results included three gas wells, two oil wells and one dry hole. As a result natural gas reserves increased by 11% to 4.8 BCF. However oil reserves were down by 5% to 230,000 bbls brought about by a re-evaluation of the Company's oil reserves at Stettler. Overall the Company's proven and probable reserves have been valued independently at $10.4 million discounted at 15%. This is 24% lower than the 1982 valuation and reflects the more conservative oil price predictions that independent engineering firms are now using.

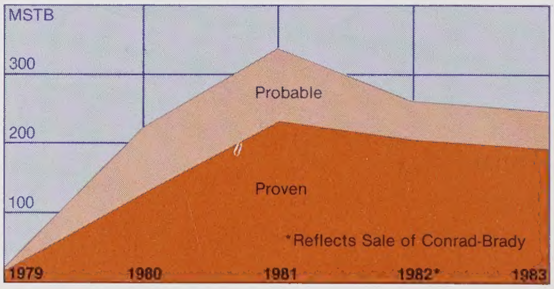
Value of Reserves Discounted at 15%



Net Gas Reserves (MCF)

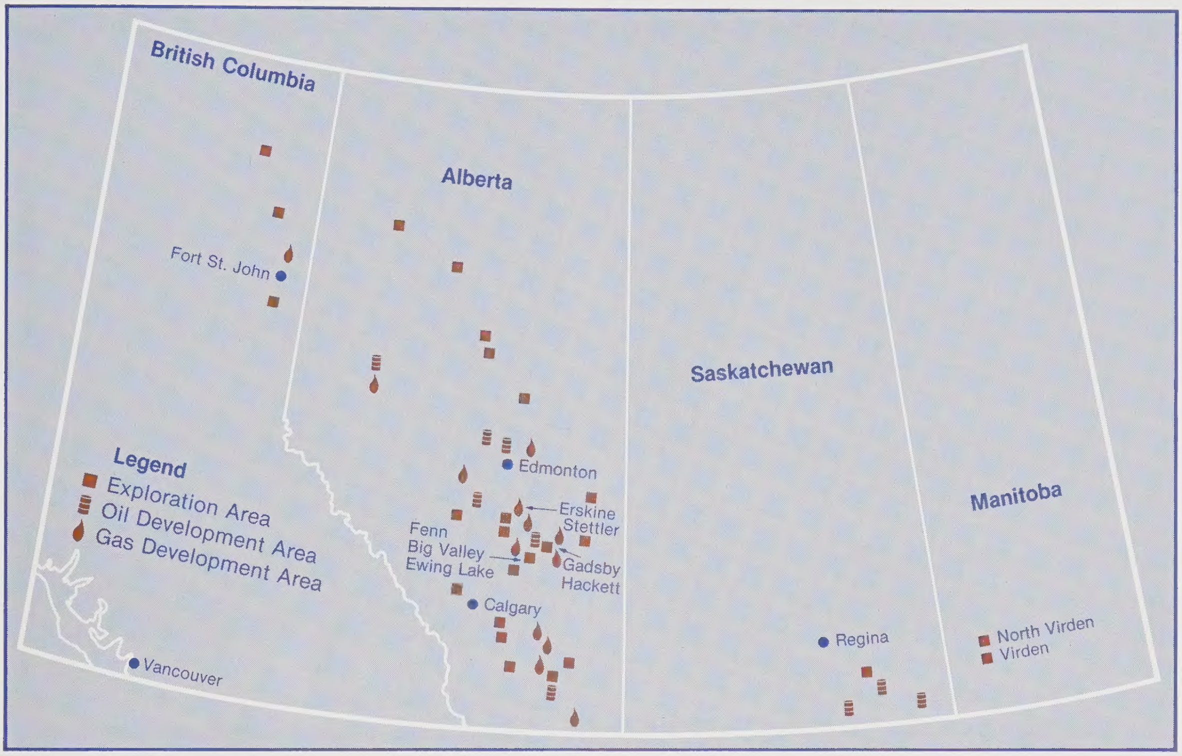


Net Oil Reserves (MSTB)



Exploration

For the past year Ashlu has restricted its area of prospect generation in Canada to East Central Alberta and Southwest Manitoba. These prospects represent a mix of low risk, modest potential and those which have the potential of dramatically increasing production revenue. In many of these prospects the Company has attempted to maintain at least a 25% working interest.



Exploration & Development Philosophy

In any oil and/or gas venture Ashlu's policy stresses minimum exposure of funds to achieve maximum interest and return. This approach succeeds through a sound technical and commercial understanding of the project and its marketability, and the promotional capabilities of the Company.

Ashlu's current widely scattered non-producing inventory has been divided into two basic categories. Acreage, viewed by the Company as non-prospective, is destined for disposal through sale to industry. The balance, containing prospective exploratory and proven shut-in gas properties, provide the short term source of new revenue for Ashlu. Local gas market outlets and interested purchasers are actively pursued to cure the common problem of shut-in gas.

Additional revenue sources are continually sought through exploitation of producing properties as well as new completions in producible zones.

Land acquisition, by Crown Sales, freehold leasing, industry sales and farmins, on internally generated prospects will provide the bulk of Ashlu's future inventory.

Two major areas, East-Central Alberta and Manitoba, are targeted as planned projects for small specific land funds. Manitoba offers shallow inexpensive drilling for very profitable light gravity oil. Relatively low risk, shallow and widespread multiple-zone gas and oil potential characterizes East-Central Alberta.

Concurrent with the above major emphasis, Ashlu will annually seek two to three ventures considered by the Company to be "romance" or profit breakthrough opportunities. These schemes represent potential for sudden and substantial revenue growth.

Erskine-Stettler, Alberta

During 1983 the Company drilled an oilwell at 14-28-39-20 W4M and a suspended gaswell at 14-7-39-19 W4M. Ashlu has a 10.4% working interest in the oilwell which is now on production at 10 BOPD. It is a follow-up to our discovery at 5-28 and appears to be on the edge of the sand lens.

Ashlu maintained a 46.54% working interest in a well drilled in 14-7-39-19 W4M which tested gas from the Basal Quartz and Viking zones. Completion attempts on the well to date have proven unsuccessful and it is currently suspended.

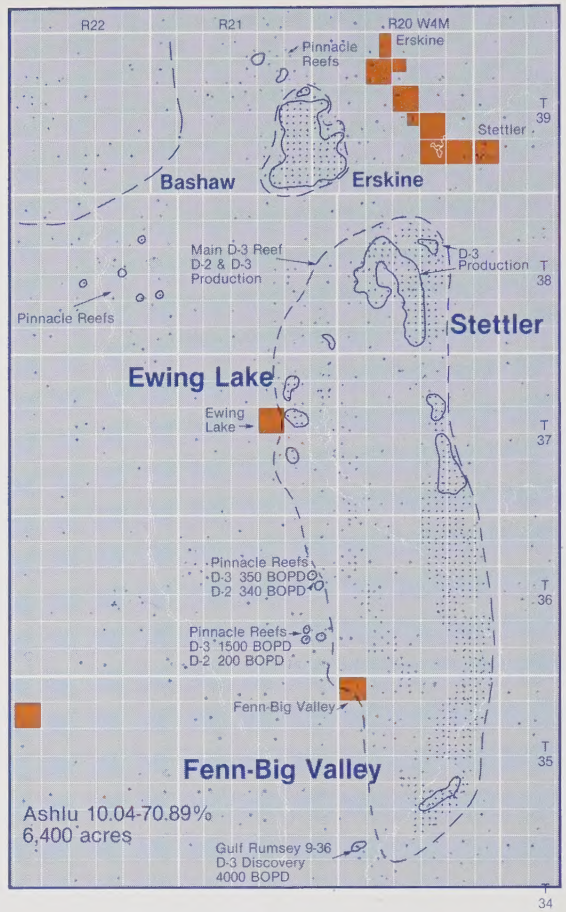
Subject to available funds Ashlu may drill as many as four wells in this immediate area. The Company currently controls two natural gas outlets and a gas purchaser has recently expressed interest in acquiring further gas in this area from the Company at discount prices.

Ewing Lake, Alberta

The Company negotiated a seismic option on this prospect during 1983. A four mile seismic program produced a promising Leduc reef lead which is currently being defined in detail by a 3-D seismic survey. Ashlu shall have a right to participate to the extent of 25% of the option well to earn 12½%, free of all cost of the initial seismic program and 3-D seismic program.

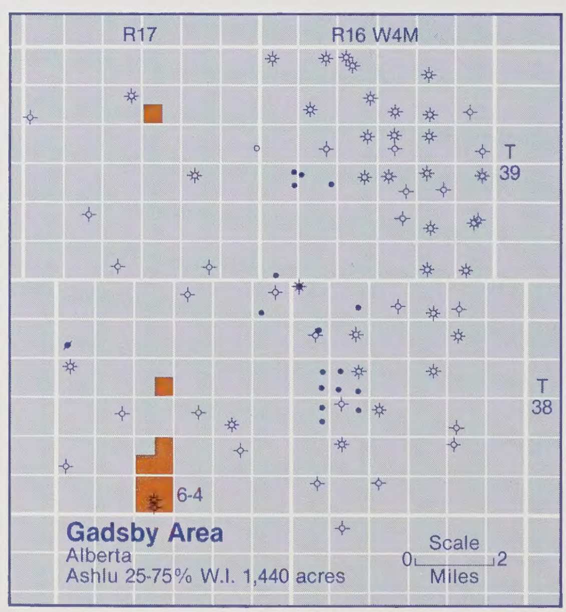
Fenn-Big Valley, Alberta

Ashlu originally had a 2.375% overriding royalty on this Leduc reef prospect. A well drilled at 8-31-35-20 W4M resulted in a dry hole although a minor oil show was recorded from the Nisku formation. It was Ashlu's opinion that this well was drilled too far east and did not properly evaluate the seismic anomaly. A technical review option was negotiated with the land owner wherein Ashlu could review the well data in conjunction with the seismic. Ashlu has completed its review and confirmed its original prospect idea. As a result, the Company has committed to drill a Leduc test prior to September 15, 1984 to earn a 55% interest in addition to the existing overriding royalty. Prior to drilling Ashlu will seek a partner to assume some of the risk.



Gadsby, Alberta

In 1983 Ashlu drilled a well at 6-4-38-17 W4M to evaluate a prospect in the Glauconite zone. This resulted in a gas well testing 320 MCF/d after perforations and prior to stimulation. An independent evaluation has assigned natural gas reserves of 1.7 BCF to this well. Ashlu has a 58.8% interest before payout and a 38.8% interest after payout.



North Virden, Manitoba

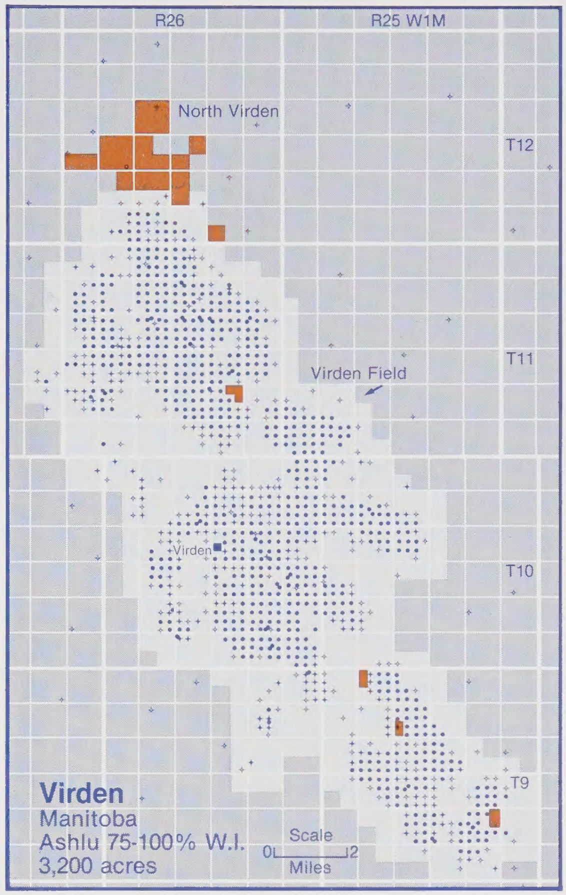
The North Virden prospect is an Ashlu generated exploratory venture which is looking for a field extension to the North Virden producing field. Ashlu acquired 2840 acres on the prospect for its 100% account. The Company has subsequently farmed out the prospect wherein 100% of the land costs were recovered while retaining a 25% carried interest in the evaluating well located in 1-17-12-26 W1M. It is expected the well will be drilled in June 1984.

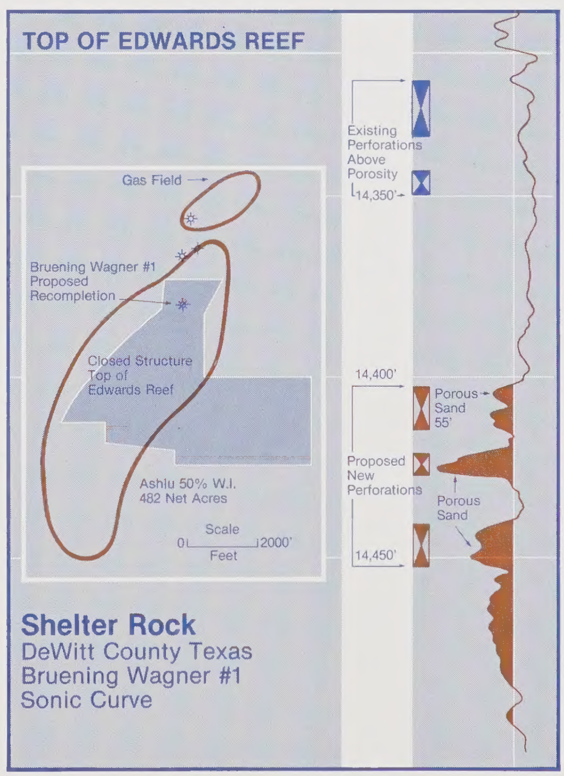
Virden Field

Ashlu controls a 75% interest in four individual leases containing a total of 360 acres. The oil spacing in the Virden field is 40 acres per well and this acquisition provides the Company with 9 low risk locations with potential for oil reserves and cash flow. Assuming the Company participated as to its 75% interest in the nine locations, and each well averaged 15 BOPD, a potential cash flow of $1,100,000 could be realized from this prospect. Ashlu's participation is subject to the availability of capital. The Company will attempt to raise the necessary funds by selling flow-through shares.

Shelter Rock, Texas

In 1983 the Company acquired a 50% interest in a lease and suspended well (Bruening Wagner #1) on this prospect in Dewitt County, Texas. It is the Company's view that the original operator perforated too high in the zone and the main gas reserves have not been adequately drained. An independent engineering evaluation, subsequent to Ashlu acquiring the property, assigned 55 feet of net gas pay with probable remaining reserves of 4-6 BCF. The first re-completion attempt was unsuccessful because of difficulties encountered while removing the tubing, but a further attempt will be made during 1984 subject to available funding. Probable reserves from this prospect have not been included in our reported proven plus probable reserves in this report.





Ashlu Exploration Ltd.

Consolidated Balance Sheet as at December 31

	1983	1982
Assets		
Current Assets		
Cash and short-term deposits	$ 210,403	$ 221,013
Accounts receivable	748,114	691,946
Due from related companies	11,955	19,300
Prepaid expenses	2,574	2,574
	973,046	934,833
Property and Equipment		
Petroleum and natural gas properties	6,198,651	5,647,406
Equipment	604,913	544,834
Treating, compressing and related facilities	123,987	—
	6,927,551	6,192,240
Less: accumulated depreciation and depletion	781,490	570,222
	6,146,061	5,622,018
Other Assets, at cost		
Investment in and advances to limited partnership	59,794	60,799
Other	46,656	47,750
	106,450	108,549
	$7,225,557	$6,665,400
Liabilities		
Current Liabilities		
Bank loan	$ 17,250	$ —
Accounts payable and accured liabilities	995,952	1,052,476
Demand note payable	—	4,000
Dividends payable	15,537	—
	1,028,739	1,056,476
Long-Term Debt (note 4)	3,044,308	2,839,511
	$4,073,047	$3,895,987
Shareholder's Equity		
Capital Stock (note 5)	$4,479,880	$4,100,953
Deficit	1,327,370	1,331,540
	3,152,510	2,769,413
	$7,225,557	$6,665,400

Signed on behalf of the Board

Director

Director

Ashlu Exploration Ltd.

Consolidated Statement of Earnings
For the Year ended December 31

	1983	1982
Income		
Production	$755,863	$ 601,806
Interest	37,938	2,348
Gain on sale of petroleum and natural gas properties	87,246	222,318
Other	64,584	17,758
	$945,631	$ 844,230
Expenses		
Production	176,596	219,471
General and administrative	275,459	355,282
Interest	136,372	203,419
Depreciation and depletion	307,270	322,729
	895,697	1,100,901
Earnings (Loss) Before the Following	49,934	(256,671)
Other Charges		
Re-evaluation of petroleum and natural gas properties	—	469,000
Loss on sale of long-term investment	—	206,577
	—	675,577
	49,934	(932,248)
Income Taxes		
Current	—	211,000
Deferred	60,000	(102,800)
	60,000	108,200
Loss Before Extraordinary Item	10,066	1,040,448
Extraordinary Item		
Reduction of income taxes on application of prior year's losses	60,000	211,000
Net Earnings (Loss) for the Year	$ 49,934	$ (829,448)
Net Earnings (Loss) Per Share		
Before extraordinary item	—	(25¢)
Extraordinary item	—	(5¢)
Net Earnings (Loss) for the Year	—	(20¢)

Ashlu Exploration Ltd.

Consolidated Statement of Deficit
For the Year Ended December 31

	1983	1982
Balance — Beginning of Year	**$1,331,540**	$ 502,092
Net earnings (loss) for the year	**49,934**	(829,448)
	1,281,606	1,331,540
Dividends on preferred shares	**45,764**	—
Balance — End of Year	**$1,327,370**	$1,331,540

Consolidated Statement of Changes in Financial Position
For the Year ended December 31

	1983	1982
Source of Working Capital		
Provided from (used in) operations —		
Loss before extraordinary item	**$ (10,066)**	$(1,040,448)
Items not affecting working capital —		
Depreciation and depletion	**307,270**	322,729
Deferred income taxes	**—**	(102,800)
Re-evaluation of petroleum and natural gas properties	**—**	469,000
Loss on sale of long-term investment	**—**	206,577
Gain on sale of petroleum and natural gas properties	**(87,246)**	(222,318)
	209,958	(367,260)
Proceeds on sale of petroleum and natural gas properties	**98,600**	724,000
Government Incentive Program payments	**58,000**	18,000
Preferred shares	**126,763**	302,771
Reduction of income taxes on application of prior year's losses	**60,000**	211,000
Issue of common shares	**252,164**	—
Long-term debt	**204,797**	—
Other assets	**18,438**	—
Investment in and advances to limited partnership	**1,005**	—
Proceeds on sale of long-term investment	**—**	83,378
	1,029,725	971,889
Use of Working Capital		
Additions to property and equipment	**887,073**	679,999
Dividends on preferred shares	**45,764**	—
Working capital deficiency assumed on business combination	**13,594**	—
Long-term debt	**—**	184,734
Other assets	**—**	19,644
	946,431	884,377
Increase in Working Capital	**83,294**	87,512
Working Capital Deficiency — Beginning of Year	**138,987**	226,499
Working Capital Deficiency — End of Year	**$ 55,693**	$ 138,987

Auditor's Report to the Shareholders

We have examined the consolidated balance sheet of Ashlu Exploration Ltd. as at December 31, 1983 and the consolidated statements of earnings, deficit and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at December 31, 1983 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Coopers & Lybrand

Coopers & Lybrand
Chartered Accountants
March 16, 1984

Ashlu Exploration Ltd.

Notes to Consolidated Financial Statements For the Year Ended December 31, 1983

1. Accounting Policies

Principles of consolidation

The consolidated financial statements include the accounts of the company and its wholly-owned subsidiary companies, Calto Development, Inc. and Concord Transmission Limited, both accounted for using the purchase method.

The company's share of the assets and liabilities of its subsidiaries is included at the recorded values in the subsidiary companies' accounts and the excess of the purchase price over net book values at the effective date of acquisition have been allocated to petroleum and natural gas properties and treating, compressing and related facilities.

Translation of foreign currencies

Accounts maintained in foreign currencies have been translated into Canadian funds on the following basis: current assets and current liabilities and long-term liabilities at the rate of exchange in effect at the year-end; property and equipment at the rate at the time of acquisition; and revenues and expenses at the average rates for the year except for depreciation and depletion which are translated at the same rates as used for the related assets. Translation gains and losses are reflected in the statement of earnings with the exception of unrealized gains and losses relating to long-term debt which are deferred and amortized over the life of the related debt.

Notes to Consolidated Financial Statements For the Year Ended December 31, 1983

1. Accounting Policies (continued)

Property and equipment

The company follows the full cost method of accounting for petroleum and natural gas properties wherein all costs relative to the exploration for and development of oil and gas reserves, including a portion of administrative and interest expense, are capitalized. A separate cost centre is established for each country in which the company operates, presently Canada and the United States. Proceeds received from disposal of properties are ordinarily credited against accumulated costs without recognition of profit or loss except where such disposal constitutes a major portion of the cost centre's reserves. Depreciation and depletion of equipment and petroleum and natural gas properties are provided for by the unit-of-production method based on the company's total estimated proven reserves for each cost centre. Treating, compressing and related facilities are depreciated on a straight-line basis over their estimated useful lives of ten years.

Alberta Royalty Tax Credit

Alberta Royalty Tax Credits are reflected as a reduction of royalties paid.

Earnings per share

Net earnings per share is calculated by dividing net earnings less dividends paid on preferred shares by the weighted average number of shares outstanding during the year. Potentially dilutive factors are anti-dilutive.

Joint Ventures

Substantially all of the company's exploration and production activities are conducted jointly with others and the accounts reflect only the company's proportionate interest in such activities.

2. Business Combinations

(a) Pursuant to an agreement effective September 1, 1983, the company acquired all of the issued and outstanding shares of Concord Transmission Limited ("Concord") in exchange for 84,298 common shares of the company which were issued from treasury on November 21, 1983 at an ascribed value of $1.16 per share. Prior to the share exchange, 33.61% of the issued and outstanding shares of Concord were held by an officer and director of the company.

Concord is a private Alberta company involved in treating, compressing and transmission of petroleum and natural gas products. The acquisition has been accounted for by the purchase method and, accordingly, the net assets of Concord are included in the balance sheet at fair value at the date of acquisition.

The results of Concord's operations have been included in these financial statements for the four months from the date of the business combination.

The acquisition is summarized as follows:

Fixed assets at net book value	$57,545
Increase in fair value (nil cost for income tax purposes)	66,442
Working capital deficiency (includes $277 owed by the company)	(26,201)
Purchase consideration	$97,786

(b) Pursuant to an agreement effective November 1, 1983, the company acquired all of the issued and outstanding shares of Calto Oil & Gas Ltd. ("COGL") in exchange for 86,200 common shares of the company which were issued from treasury on December 1, 1983 at an ascribed value of $1.16 per share. COGL was a private Alberta company whose only asset was a working interest in a shut-in gas well.

2. Business Combinations (continued)

The acquisition has been accounted for by the purchase method, and is summarized as follows:

Petroleum and natural gas property at net book value	$48,532
Increase in fair value (nil cost for income tax purposes)	50,992
Working capital (includes $12,416 owed to the company)	468
Purchase consideration	$99,992

On December 22, 1983, COGL was wound-up.

3. Land Held for Resale

Included in the company's petroleum and natural gas properties is $118,000 of land held expressly for the purpose of resale. Gains or losses incurred on such properties are included in determining net earnings for the year. The cost of these lands have been excluded in the depletion calculation.

4. Long-Term Debt

(a) Long-term debt consists of the following:

	1983	1982
Canadian dollar demand bank loan	**$2,445,326**	2,272,292
United States dollar demand bank loan (U.S. $476,969; 1982 - U.S. $443,352)	**593,542**	545,057
Demand promissory note (U.S. $4,372; 1982 - U.S. $18,026)	**5,440**	22,162
	$3,044,308	$2,839,511

(b) The bank loans are secured by a general assignment of book debts, a specific assignment of certain of the company's interest in petroleum and natural gas properties, equipment and related production. The Canadian dollar bank loan bears interest at the bank's prime rate plus 1½% (14% at December 31, 1983). The United States dollar bank loan bears interest at the bank's United States base rate plus 1½% (13% at December 31, 1983). The bank loan of $17,250 included in current liabilities is secured by the company's treating, compressing and related facilities.

(c) The demand promissory note represents a subsidiary company's obligation arising from the investment in a limited partnership. The amount of the promissory note, which is a guarantee of the limited partnership's indebtedness to a U.S. bank (company's maximum liability U.S. $35,000), will be reduced as the limited partnership's bank loan is reduced by payments out of production revenue.

(d) During the year, the company commenced negotiations with its banker with respect to its demand bank loans. The present status of the negotiations is that the bank has agreed, in principle, to reclassify the demand loans with a combination of demand loans, three year term loans, term loans and deferred notes, but, as yet, no principal repayment terms have been established and, accordingly, the aggregate minimum amount of payments required in each of the next five years to meet retirement provisions of the demand loans has not been established and is not reflected. Negotations are continuing and the company is confident that a repayment schedule can be established which will take into account the company's ability to meet its current debt obligations, without adversely affecting operations.

(e) Interest expenditures incurred by the company during the years ended December 31, and the amounts capitalized as cost of properties, were as follows:

	1983	1982
Total	**$328,851**	$463,462
Capitalized	**$192,479**	$260,043

Ashlu Exploration Ltd.

Notes to Consolidated Financial Statements
For the Year Ended December 31, 1983

5. Capital Stock

(a) Authorized

933,750 preferred shares with a par value of $10 each
66,250 10% convertible redeemable preferred shares, Series A
25,000,000 common shares without par value

(b) Issued and fully paid

	1983		1982	
Common shares	**Shares**	**$**	Shares	$
Balance - Beginning of Year	**4,142,695**	**3,798,182**	4,142,695	3,798,182
Issued as consideration for the acquisition of Concord Transmission Limited	**84,298**	**97,786**	—	—
Issued as consideration for the acquisition of Calto Oil & Gas Ltd.	**86,200**	**99,992**	—	—
Issued for cash less estimated government incentive grants realizable by investor	**80,000**	**54,386**	—	—
Balance - End of Year	**4,393,193**	**4,050,346**	4,142,695	3,798,182
Obligation to issue preferred shares				
Balance - Beginning of Year	**33,277**	**302,771**	—	—
Additional shares to be issued for expenditures incurred	**32,973**	**126,763**	33,277	302,771
Balance - End of Year	**66,250**	**429,534**	33,277	302,771
		$4,479,880		4,100,953

Pursuant to a private placement memorandum dated November 26, 1982, the company is obligated to issue 66,250 preferred shares at a subscription price of $10 each. The shares are to be issued to subscribers in consideration for the subscribers incurring resource expenditures on company lands. The shares are to be issued under provisions of the Income Tax Act which permit the subscribers to deduct the resource expenditures instead of the company. As at December 31, 1983, the company had fully expended the fund on resource expenditures on behalf of the subscribers. The subscribers are also entitled to receive incentive payments from the provincial and federal governments arising from the resource expenditures. Although the preferred shares will not be issued until 1984, the directors have declared quarterly dividends in 1983 as the shares were earned by the investors. These preferred shares carry a conversion price of $1.25 per common share for a period of five years from subscription and $1.667 per common share for an additional five year period. The shares are also redeemable at par after one year provided the trading price of the company over a twenty day period is not less than 130% of the conversion price of $1.625 per share.

5. Capital Stock (continued)

Stock options issued

During 1983, options to purchase 120,000 common shares were issued and 122,000 options were cancelled. Accordingly, as at December 31, 1983 options to purchase 255,000 common shares (including 30,000 to directors) were outstanding at prices from 50¢ to $1.00 per share. The options expire at various dates to April 1, 1986.

Pursuant to the terms of stock option agreements, certain officers and employees of the company borrowed funds to purchase common shares of the company. The loans in the amount of $27,750 (1982 - $27,750) are secured by the company's shares and are repayable, without interest, on December 1, 1985. The promissory notes may be fully or partially prepaid at the option of the officers, directors and employees. As at December 31, 1983 $15,750 (11,000 shares) was due from a former officer and former employees of the company, all of whom have assigned their shares to the company.

6. Income Taxes

The company has Canadian income tax losses and resource expenditures of approximately $3,600,000 which may be carried forward and utilized to reduce future Canadian taxable income. The income tax losses carried forward ($164,000) will expire in 1987. The company's U.S. subsidiary company has income tax losses of approximately $600,000 which may be carried forward and utilized to reduce future U.S. taxable income. These losses carried forward will expire in 1996. In addition, the company has allowable capital losses of approximately $100,000 which may be carried forward indefinitely and utilized to offset future taxable capital gains. For income tax purposes, $1.9 million of the total net assets have a cost of nil.

7. Segment Information

The company's dominant industry is oil and gas exploration, development and production, the operations of which are summarized as follows on a geographic basis:

	1983		
	Canada	United States	Consolidated
Segment revenues - production	$ 699,496	$ 56,367	$ 755,863
- gain on sale	87,246	—	87,246
	$ 786,742	$ 56,367	$ 843,109
Segment operating income	717,264	51,771	769,035
Depletion and depreciation	286,942	31,328	318,270
Net segment income	$ 430,322	$ 20,443	450,765
General corporate expenses			264,459
Interest expense			136,372
Net earnings for the year			$ 49,934
Total assets	$5,957,587	$1,267,970	$7,225,557
Capital expenditures during the year	$ 801,297	$ 85,776	$ 887,073

Notes to Consolidated Financial Statements For the Year Ended December 31, 1983

7. Segment Information

	1982		
	Canada	United States	Consolidated
Segment revenues - production	$ 389,784	$ 212,022	$ 601,806
- gain on sale	80,142	142,176	222,318
	$ 469,926	$ 354,198	$ 824,124
Segment operating income	335,569	289,190	624,759
Depletion and depreciation	190,764	131,965	322,729
Re-evaulation of petroleum and natural gas properties	—	469,000	469,000
Net segment income (loss)	$ 144,805	$ (311,775)	(166,970)
General corporate expenses			355,282
Interest expense			203,419
Operating loss			725,671
Loss on sale of long-term investment			206,577
Provision for income taxes			108,200
Extraordinary item			(211,000)
Loss for the year			829,448
Total assets	$5,435,535	$1,229,865	$6,665,400
Capital expenditures during the year	$ 597,997	$ 82,002	$ 679,999

8. Related Party Transactions

The company and its subsidiary company have entered into management agreements with a company controlled by an officer and director of the company. During the year the company and a subsidiary company were charged $39,000 (1982 - $51,000) for services provided by the related company.

9. Continuance Under Business Corporations Act of Alberta

The company was continued under Section 261 of the Business Corporations Act of Alberta on July 5, 1983.

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Corporate Information

Capitalization
Common Shares
Authorized: 25,000,000 N.P.V.
Issued: 4,393,193

Preferred Shares
Authorized: 1,000,000
$10/share par value
Issued: 66,250

Directors & Officers
Hugh D. Borgland
President & Director
Calgary, Alberta

G. Vennard
Director
Calgary, Alberta

Arthur F. Coady
Secretary & Director
Calgary, Alberta

R.T. Vanderham
Director
Calgary, Alberta

Solicitors
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Calgary, Alberta
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Penthouse, One Allen Centre
Houston, Texas
77002

Key Personnel
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President and Land Manager

Tom Wiseman
Controller

Larry D. Baker
Operation Manager

Richard C. Brown
Exploration Manager

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403-266-8985

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Bankers
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Main Branch
Calgary, Alberta

Auditors
Coopers & Lybrand
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Calgary, Alberta

Registrar & Transfer Agent
Montreal Trust
411 - 8th Avenue S.W.
Calgary, Alberta

Subsidiary Company
Calto Development, Inc.
Concord Transmission Limited

Stock Exchange Listing
Alberta Stock Exchange
Symbol — AEX